BEA Union Investment

Webcast Summary

Market Outlook for 3Q 2017: Trends in Equity and Bond Markets, Potential Risks, and Investment Recommendations
(28 July 2017)

Mr. Henry Chan, Chief Investment Officer at BEA Union Investment, shares his views on market trends for the equity and bond markets in the third quarter, identifies potential key risks, and provides investment recommendations on asset allocation.

Q1： Equity and bond markets both experienced an uptrend during the first half of this year. Do you think this will continue in the second half of 2017?

A1： Equities have done well this year. Valuations expanded with quite positive economic news and strong earnings delivery. Investors may wonder whether all these positive factors have already been reflected in share prices. Our view is that equities will still see an upside going into the second half of the year because of strong earnings momentum and continued economic recovery. More importantly, the liquidity environment remains very supportive despite all the talk of interest rate hikes.

Regarding fixed income, many fixed-income asset classes have actually delivered positive returns this year. We can still see quite attractive opportunities in certain areas, such as Asian credits, where yield carry is still very positive. Overall, liquidity conditions remain supportive for equities and certain areas of fixed income.

Q2： Why has the balance sheet cut had a greater impact than rate hikes? Are there any other potential key risks we need to look out for?

A2： Central bank balance sheets in the U.S. and eurozone have expanded massively over the last decade while interest rates were kept close to zero. Going forward, what is important is the reversal of this balance sheet expansion or the reduction in central banks' balance-sheet assets, more often referred to as "tapering". While markets are wary about this reversal of a decade-long easing stance, the reduction will be gradual, cushioning against any asset price correction. The big swing factors in market will be market assumptions about the policy change, movement in the technology sector (which has done well this year), and potential contagion from political risks in some emerging-market economies.

Q3： Is now the right timing to buy equities? Do you have any investment recommendations regarding asset allocation?

A3： Equities still look attractive relative to bonds, and the current liquidity environment continues to be supportive to asset prices in general. While the macro environment is improving, a strong cyclical upturn is less likely to happen in the near term. Investors may consider combining equities with fixed income assets that have attractive carry – such as corporate credits, especially within Asia, to obtain a better balance of returns from equity participation and income.

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